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Legislative Audit Division

State of Montana

Report to the Legislature

April 1999

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1998

Montana Historical Society

This report contains three recommendations for improving the Society's operations. Items addressed in the report include:

- Accommodations tax transfer.
- Asset security.
- Heritage commission rules.

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
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Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

April 1999

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Montana Historical Society for the two fiscal years ended June 30, 1998. Included in this report are three recommendations to the society to improve fiscal operations associated with society programs.

The written response to the audit recommendations are included at the end of the audit report. We thank the director and society staff for their assistance and cooperation.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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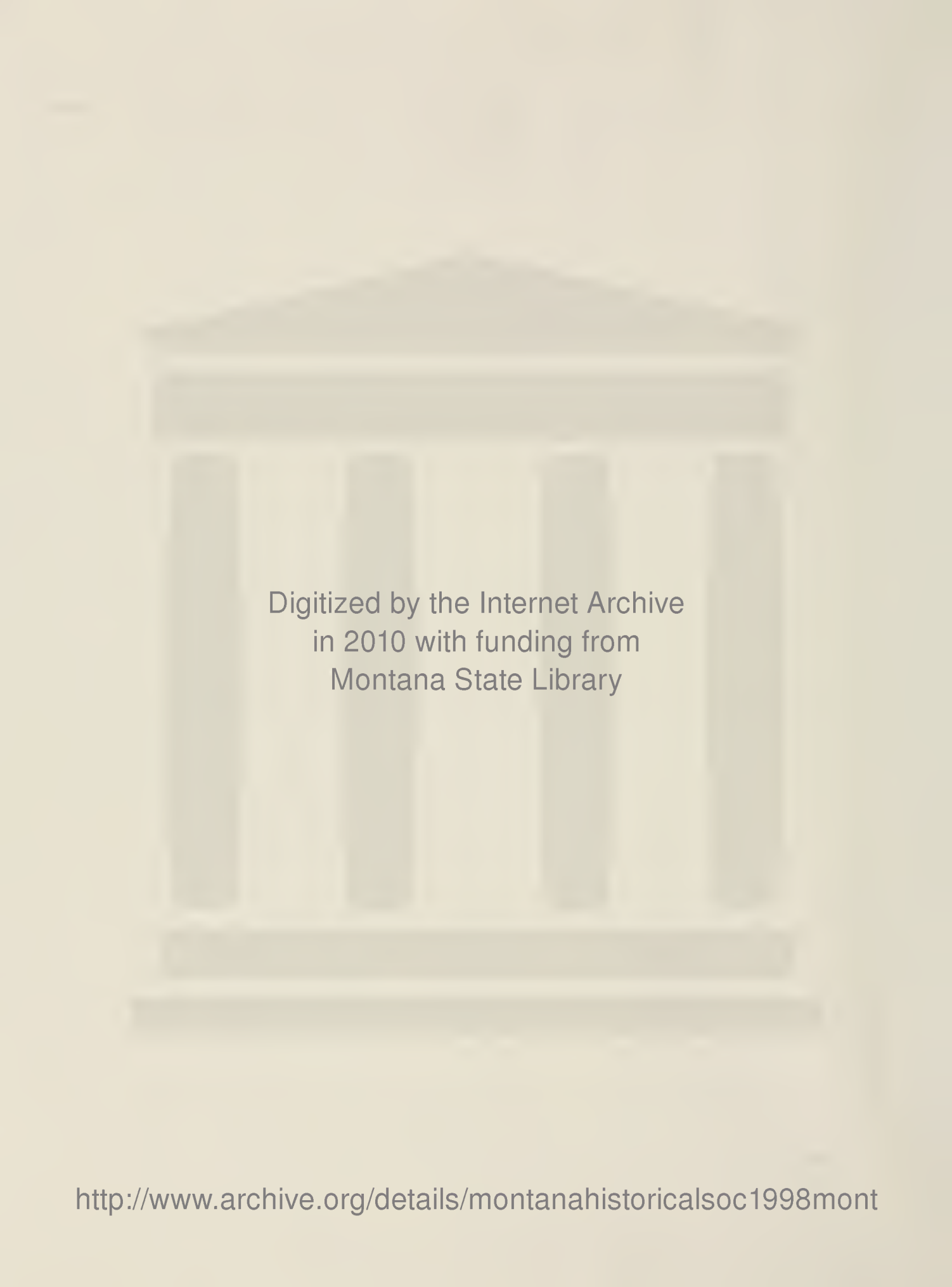
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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1998

Montana Historical Society

Members of the audit staff involved in this audit were John Fine, Cindy S. Jorgenson, and Jennifer Solem.

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Appointed and Administrative Officials

Montana Historical Society Board of Trustees

		Term Expires July 1 of
William M. Holt, President	Lolo	2003
John J. Burke, Vice President	Butte	2000
Thomas Foor, Secretary	Missoula	2003
Jean Birch	Great Falls	2001
Ana Brenden	Scobey	2000
Steve Browning	Helena	2002
Jack Hayne	Dupuyer	2000
Ed Henrich	Anaconda	1999
Anne Hibbard	Helena	2001
William Mackay*	Roscoe	1999
Vickie McCarthy	Billings	2003
Susan McDaniel	Miles City	1999
Robert Morgan	Clancy	2001
Mary Murphy	Bozeman	2002
Lee Rostad	Martinsdale	1999
Donald Wetzel	Billings	2002

*Member is emeritus.

Montana State Historical Preservation Review Board

		Term Expires October 1 of
Steve Aaberg	Billings	2000
Dennis Deppmeier	Billings	2000
Theo Hugs	Fort Smith	2002
David Johns	Butte	1999
Douglas E. Johnson	Hamilton	2002
Chris King	Winnett	1999
Kirk Michels	Livingston	2000
Gloria Weisgerber	Missoula	2001
Donald Wetzel	Billings	1999

Montana Heritage Preservation & Development Commission

		Term Expires May 23 of
Maureen Averill	Bigfork	2002
Mike Gustafson	Billings	2000
John Lawton	Great Falls	2001
Jeanette McKee	Hamilton	2002
David Mihalic	Columbia Falls	2000
Jeffrey Safford	Bozeman	2002
Rosana Skelton	Helena	2001

Montana Historical Society Administration Officials

Sharon McCabe, Acting Director/Centralized Services Manager

Montana Historical Society

This report contains the results of our financial-compliance audit of the Montana Historical Society (society) for the two fiscal years ended June 30, 1998. The previous audit report contained three recommendations to the society. The society implemented all three recommendations.

This report contains three recommendations. The recommendations address areas where the society can improve compliance with state law.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

The listing below serves as a means of summarizing the recommendations contained in the report, the agency's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the society request the Department of Revenue transfer $45,000 to the historic preservation and development account for reimbursement of the Fort Peck grant paid by the society . . . . . Page 5

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the society establish procedures to ensure state property is not transferred to another entity without proper compensation to the state. . . . . Page 7

Agency Response: Concur. See page B-3.

Recommendation #3

We recommend the society establish rules governing acquisition of historic sites in accordance with state law. . . . . Page 7

Agency Response: Concur. See page B-4.

Introduction

General

We performed a financial-compliance audit of the Montana Historical Society (society) for fiscal years 1996-97 and 1997-98. The objectives of the audit were to:

1. Determine if the society complied with applicable laws and regulations.
2. Make recommendations, if necessary, for improvement in the management and internal controls of the society.
3. Determine if the society's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1998.
4. Determine the status of the prior audit recommendations.

This report contains three recommendations to the society. Other areas of concern deemed not to have a significant effect on the successful operations of the society are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendations contained in this report and determined it was not significant.

Background

Since its founding in 1865, the society has had as its primary goal to preserve and interpret Montana and western American history. The society conducts its operations in the following programs.

Administration - The administration program provides supervision and coordination for all programs of the society. Activities include public information, accounting and business management, financial reporting, fund-raising, and security and building management. The program also provides education and tours for the public.

Library - This program incorporates three functional sections: the library, the archives, and the photograph archives. The staff is responsible for collecting, organizing, preserving, and assisting the public and the staff of other society programs in the use of research material.

Museum - The museum collects fine art, and historical archeological and ethnological artifacts that pertain to Montana and its adjoining

geographic region. In addition to caring for the society's museum collections, program staff conduct research, produce exhibits, sponsor public programs, answer reference requests from the public and provide technical assistance to other museums.

Publications - This program consists of three areas: Montana, The Magazine of Western History, the Montana Historical Society Press, and the Montana Historical Society Museum Store. Montana, The Magazine of Western History assists the society in fulfilling its statutory mission of preserving Montana history and providing educational outreach. The publications program is responsible for managing the society's museum gift shop. The Museum Store operates in response to public demand primarily through direct mail to a broad base of people interested in western history. The proceeds from the store supports the Montana Historical Society Press.

Historic Sites Preservation - This program provides assistance to people in the state to preserve significant historic and prehistoric buildings and sites. Society staff are available to provide advice, assistance, and support to people with these sites in their ownership or care.

Heritage Commission - This program is responsible for managing the state-owned properties in Virginia City and Nevada City. The purchase of these two cities included numerous buildings, hotels, retail operations, theaters, rental homes, one and a half miles of railroad track, a train engine and railroad cars, many old vehicles, and thousands of artifacts.

Lewis & Clark Commission - This program is responsible for coordinating and promoting observance of Montana`s bicentennial commemoration of the Lewis and Clark Expedition and the importance of the roles played by Montana`s Indian people to the Lewis and Clark Expedition. The commission may cooperate with national, regional, statewide, and local events promoting the bicentennial; plan and coordinate events; engage in fund-raising activities, and promote public education concerning the Lewis and Clark Expedition and the history and culture of Montana`s Indian people at the time of the Lewis and Clark Expedition.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit report for the two fiscal years ended June 30, 1996, contained three recommendations regarding the misclassification of grant expenditures, improper expenditure abatements, and timely deposit of donations. The society implemented all three recommendations.

Findings and Recommendations

Fort Peck Center

The Montana Historical Society purchased Virginia and Nevada Cities in fiscal year 1996-97. Section 15-65-121, MCA, directed the deposit of $400,000 from accommodations tax collections into the Montana Heritage Preservation and Development Account for the restoration, maintenance, and operation of these historic properties.

This section also required $45,000 be transferred to the Department of Commerce for a grant to the Fort Peck interpretive center. The law specified this one time transfer be made on July 1, 1997.

Although the law does not require distribution of accommodations tax by the society, the society transferred the $45,000 from its historic preservation and development account. The law directs the one time transfer be made from the accommodations tax proceeds. Therefore, the society should recover the amount transferred for the grant from accommodations tax collections.

Recommendation #1

We recommend the society request the Department of Revenue transfer $45,000 to the historic preservation and development account for reimbursement of the Fort Peck grant paid by the society.

Liquor Licenses

In May 1997, the Montana Heritage and Preservation Development Commission (commission) purchased real and personal property located in Virginia City and Nevada City from Bovey Restorations, Inc. As part of the purchase, the commission obtained a security interest in two all-beverage liquor licenses and one on-premises consumption beer license with a combined estimated fair market value of approximately $150,000. The all-beverage liquor licenses were used in the operation of the Wells Fargo Coffeehouse and the Bale of Hay Saloon. The on-premises consumption beer license was used in the operation of the Brewery.

Although the commission had a security interest in these licenses, it could not meet the requirements established in section 16-4-401, MCA, to be a legal holder. As a result, the commission had 180 days to transfer the licenses to a legal holder. The commission chose to transfer one all-beverage and the on-premises consumption beer license to the Montana Historical Society Foundation (foundation). Since state law prohibits a qualified entity from holding more than one all-beverage license, the other all-beverage license was transferred to the Daly Mansion Preservation Trust (trust). The trust administers the Daly Mansion under contract with the society. The Department of Revenue approved the transfer of the licenses to these two private nonprofit organizations. Society personnel indicated they have a verbal agreement with these organizations that the licenses will be returned in the event state law is modified to allow the commission to hold these licenses. Society personnel stated legislation to allow the commission to hold these licenses and to transfer the licenses to the commission has been proposed to the 1999 Legislature.

We reviewed available records related to the transfer of these licenses. The records indicate the commission authorized the transfer of ownership of two all-beverage licenses and one on-premises consumption beer license to private nonprofit organizations without compensation for the value of those assets or without a written agreement for the return of those assets. The verbal agreements between the commission and the foundation and the trust do not adequately protect the state's interest in these licenses in the event legislation is passed allowing the commission to operate the licenses.

The commission, as a part of the society, has a fiduciary responsibility to protect the state's interest in properties purchased in accordance with section 22-3-1001, MCA. We believe the commission should establish procedures which will protect the state's interest in any properties purchased under authority of the legislature.

Recommendation #2
We recommend the society establish procedures to ensure state property is not transferred to another entity without proper compensation to the state.

MT Heritage Commission Rules

Section 22-3-1003, MCA, requires the Montana Heritage Preservation and Development Commission (commission) of the society to adopt rules for making acquisitions. The rules shall consider whether the property represents the state's culture and history, can become self-supporting, contributes to the economic and social enrichment of the state, lends itself to programs to interpret Montana history, and creates significant social and economic impacts to affected local governments and the state. The commission can consider any other matters they deem necessary and appropriate.

Society personnel stated the purchase of Virginia City and Nevada City have taken a lot of time and attention. Additionally, since the society had not purchased any properties previously and has no immediate plans to do so, the society delayed establishing rules for acquisitions. We believe the society should establish these rules for use when the need arises as required by law.

Recommendation #3
We recommend the society establish rules governing acquisition of historic sites in accordance with state law.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Historical Society for each of the fiscal years ended June 30, 1997 and 1998. The information contained in these financial schedules is the responsibility of the society's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the society's assets, and liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Historical Society for each of the fiscal years ended June 30, 1997 and 1998, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 22, 1999

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HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1997	$ (49,639)[1]	$ (2,317,559)	$ 419,605	$ 415,431	$ 192,052
ADDITIONS					
Budgeted Revenues & Transfers-In	500	4,691,765 [3]	723,980		
Nonbudgeted Revenues & Transfers-In		73,590		102,927	160,760
Prior Year Revenues & Transfers-In Adjustments		(4,828)	(1,320)		
Cash Transfers In (Out)	1,478,552 [2]	478,168			
Direct Entries to Fund Balance			(41,738)	159,821 [4]	544,782 [4]
Total Additions	1,479,052	5,238,695	680,922	262,748	705,542
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	1,484,153	1,422,085	717,377		
Nonbudgeted Expenditures & Transfers-Out		71,158	39,199	50,651	8,729
Prior Year Expenditures & Transfers-Out Adjustments	34	(19,214)	1,677		
Total Reductions	1,484,187	1,474,029	758,253	50,651	8,729
FUND BALANCE: June 30, 1998	$ (54,774)[1]	$ 1,447,107	$ 342,274	$ 627,528	$ 888,865

[1] See note 2, page A-12.
[2] See note 3, page A-13.
[3] See note 4, page A-13.
[4] See note 6, page A-14.

This schedule is prepared from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1996	$ (83,919) [1]	$ 250,773	$ 454,441	$ 415,530	$ 184,991
ADDITIONS					
Budgeted Revenues & Transfers-In	500	748,550	688,899		
Nonbudgeted Revenues & Transfers-In		80,637		33,051	15,981
Cash Transfers In (Out)	1,459,839 [2]	4,015,419 [2-3]			
Direct Entries to Fund Balance					0
Total Additions	1,460,339	4,844,606	688,899	33,051	15,981
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	1,425,001	7,351,769	745,459		
Nonbudgeted Expenditures & Transfers-Out		60,023	(25,954)	33,150	8,920
Prior Year Expenditures & Transfers-Out Adjustments	1,058	1,146	4,230		
Total Reductions	1,426,059	7,412,938	723,735	33,150	8,920
FUND BALANCE: June 30, 1997	$ (49,639) [1]	$ (2,317,559)	$ 419,605	$ 415,431	$ 192,052

[1] See note 2 on page A-12.
[2] See note 3 on page A-13.
[3] See note 4 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Charges for Services	$ 500	$ 4,005				$ 4,505
Investment Earnings				$ 102,927	$ 160,160	263,087
Federal Indirect Cost Recoveries		52,016				52,016
Sale of Documents, Merchandise and Property			$ 668,635			668,635
Rentals, Leases and Royalties		22,212	148			22,360
Grants, Contracts, Donations and Abandonments		282,414			600	283,014
Other Financing Sources		3,938,264 [1]	53,877			3,992,141
Federal		461,616				461,616
Total Revenues & Transfers-In	500	4,760,527	722,660	102,927	160,760	5,747,374
Less: Nonbudgeted Revenues & Transfers-In		73,590		102,927	160,760	337,277
Prior Year Revenues & Transfers-In Adjustments		(4,828)	(1,320)			(6,148)
Actual Budgeted Revenues & Transfers-In	500	4,691,765	723,980	0	0	5,416,245
Estimated Revenues & Transfers-In	2,500	5,282,034	892,877			6,177,411
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (2,000)	$ (590,269)	$ (168,897)	$ 0	$ 0	$ (761,166)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	$ (2,000)	$ (178,615)				$ (180,615)
Investment Earnings		(4,400)				(4,400)
Federal Indirect Cost Recoveries		(500)				(500)
Sale of Documents, Merchandise and Property			$ (167,045)			(167,045)
Rentals, Leases and Royalties		17,212	(1,852)			15,360
Grants, Contracts, Donations and Abandonments		(236,090)				(236,090)
Other Financing Sources		11,364				11,364
Federal		(199,240)				(199,240)
Budgeted Revenues & Transfers-In Over (under) Estimated	$ (2,000)	$ (590,269)	$ (168,897)	$ 0	$ 0	$ (761,166)

[1] See note 3 and 4, page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Charges for Services	$ 500	$ 2,935				$ 3,435
Investment Earnings				$ 33,051	$ 15,761	48,812
Federal Indirect Cost Recoveries		47,343				47,343
Sale of Documents, Merchandise and Property			$ 631,800		100	631,900
Rentals, Leases and Royalties			2,030			2,030
Grants, Contracts, Donations and Abandonments		273,100			120	273,220
Other Financing Sources		11,568	55,069			66,637
Federal		494,241				494,241
Total Revenues & Transfers-In	500	829,187	688,899	33,051	15,981	1,567,618
Less: Nonbudgeted Revenues & Transfers-In		80,637		33,051	15,981	129,669
Actual Budgeted Revenues & Transfers-In	500	748,550	688,899	0	0	1,437,949
Estimated Revenues & Transfers-In	2,500	4,839,062	835,069			5,676,631
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (2,000)	$ (4,090,512)	$ (146,170)	$ 0	$ 0	$ (4,238,682)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	$ (2,000)	$ (1,565)				$ (3,565)
Investment Earnings		(4,000)				(4,000)
Federal Indirect Cost Recoveries		(659)				(659)
Sale of Documents, Merchandise and Property			$ (146,200)			(146,200)
Rentals, Leases and Royalties			30			30
Grants, Contracts, Donations and Abandonments		(40,150)				(40,150)
Other Financing Sources		(3,914,932)[1]				(3,914,932)
Federal		(129,206)				(129,206)
Budgeted Revenues & Transfers-In Over (under) Estimated	$ (2,000)	$ (4,090,512)	$ (146,170)	$ 0	$ 0	$ (4,238,682)

[1] See note 5 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Administration Program	Library Program	Museum Program	Publications Program	Historcal Sites Preservation Program	Hentage Commission Program [1]	Lewis & Clark Commission Program [1]	Total
Personal Services								
Salaries	$ 429,850	$ 370,699	$ 204,172	$ 238,911	$ 259,707	$ 78,825	$ 6,962	$ 1,589,126
Employee Benefits	111,978	103,569	54,908	67,367	67,591	18,496	1,385	425,294
Personal Services-Other				6,454				6,454
Total	541,828	474,268	259,080	312,732	327,298	97,321	8,347	2,020,874
Operating Expenses								
Other Services	123,630	33,964	22,368	42,835	20,636	152,883	2,676	398,992
Supplies & Materials	40,051	33,961	15,553	14,252	8,018	26,984	1,547	140,366
Communications	16,502	8,372	9,164	31,159	10,627	13,328	2,708	91,860
Travel	30,046	4,343	2,111	6,215	15,448	17,127	4,423	79,713
Rent	168,295	5,334	2,546	11,934	15,682	4,322	13	208,126
Utilities		87		46		4,920		5,053
Repair & Maintenance	131,258	9,052	151	951	3,380	16,928		161,720
Other Expenses	24,990	8,805	2,445	47,099	7,446	7,204	447	98,436
Goods Purchased For Resale				233,157		256		233,413
Total	534,772	103,918	54,338	387,648	81,237	243,952	11,814	1,417,679
Equipment & Intangible Assets								
Equipment	(3,492,165)[2]	12,155				3,598,497		118,487
Intangible Assets								0
Total	(3,492,165)	12,155				3,598,497		118,487
Capital Outlay								
Buildings	(3,000,572)[2]					3,000,572		0
Total	(3,000,572)					3,000,572		0
Grants								
From Federal Sources					81,027			81,027
Total					81,027			81,027
Transfers								
Accounting Entity Transfers	10,764			53,877		45,000		109,641
Total	10,764			53,877		45,000		109,641
Debt Service								
Installment Purchases	28,141							28,141
Total	28,141							28,141
Total Program Expenditures & Transfers-Out	$ (5,377,232)	$ 590,341	$ 313,418	$ 754,257	$ 489,562	$ 6,985,342	$ 20,161	$ 3,775,849
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	$ 640,145	$ 513,075	$ 257,331	$ 53,877	$ 19,759			$ 1,484,187
Special Revenue Fund	(6,076,757)	24,927	45,943	4,610	469,803	$ 6,985,342	$ 20,161	1,474,029
Enterprise Fund		52,339	10,144	695,770				758,253
Expendable Trust Fund	50,651							50,651
Nonexpendable Trust Fund	8,729							8,729
Total Program Expenditures & Transfers-Out	(5,377,232)	590,341	313,418	754,257	489,562	6,985,342	20,161	3,775,849
Less: Nonbudgeted Expenditures & Transfers-Out	80,420	9,430	22,145	40,778	16,964			169,737
Pnor Year Expenditures & Transfers-Out Adjustments	(14,097)	193	(4,186)	431	156			(17,503)
Actual Budgeted Expenditures & Transfers-Out	(5,443,555)	580,718	295,459	713,048	472,442	6,985,342	20,161	3,623,615
Budget Authority	(5,395,085)	593,661	408,275	762,121	679,939	8,225,000	20,162	5,294,073
Unspent Budget Authority	$ 48,470	$ 12,943	$ 112,816	$ 49,073	$ 207,497	$ 1,239,658	$ 1	$ 1,670,458
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	$ 21,122	$ 78	$ 41		$ 1			$ 21,242
Special Revenue Fund	18,033	11,713	108,506	$ 21,969	207,496	$ 1,239,658	$ 1	1,607,376
Enterprise Fund	9,315	1,152	4,269	27,104				41,840
Unspent Budget Authority	$ 48,470	$ 12,943	$ 112,816	$ 49,073	$ 207,497	$ 1,239,658	$ 1	$ 1,670,458

[1] See note 7, page A-14.
[2] See note 8, page A-14.

This schedule is prepared from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Administration Program	Library Program	Museum Program	Publications Program	Historical Sites Preservation Program	Total
Personal Services						
Salaries	$ 387,722	$ 354,220	$ 193,162	$ 213,695	$ 266,003	$ 1,414,802
Employee Benefits	100,865	96,934	52,332	59,638	65,501	375,270
Personal Services-Other				7,833		7,833
Total	488,587	451,154	245,494	281,166	331,504	1,797,905
Operating Expenses						
Other Services	158,926	29,680	55,203	47,389	34,649	325,847
Supplies & Materials	8,650	17,190	14,812	13,057	6,056	59,765
Communications	16,083	8,444	8,360	25,717	10,006	68,610
Travel	26,311	1,793	9,003	6,614	17,437	61,158
Rent	162,391	6,181	3,035	12,276	15,464	199,347
Utilities		77		4		81
Repair & Maintenance	19,859	10,334	666	601	3,782	35,242
Other Expenses	23,704	8,090	4,706	4,396	4,866	45,762
Goods Purchased For Resale		15		297,312		297,327
Total	415,924	81,804	95,785	407,366	92,260	1,093,139
Equipment & Intangible Assets						
Equipment	3,499,253 [1]	31,292	5,209	(16,356)	15,534	3,534,932
Intangible Assets		2,195				2,195
Total	3,499,253	33,487	5,209	(16,356)	15,534	3,537,127
Capital Outlay						
Buildings	3,000,572 [1]					3,000,572
Total	3,000,572					3,000,572
Grants						
From Federal Sources					83,921	83,921
Total					83,921	83,921
Transfers						
Accounting Entity Transfers	11,568			55,069		66,637
Total	11,568			55,069		66,637
Debt Service						
Installment Purchases	25,502					25,502
Total	25,502					25,502
Total Program Expenditures & Transfers-Out	$ 7,441,406	$ 566,445	$ 346,488	$ 727,245	$ 523,219	$ 9,604,803
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	$ 587,724	$ 485,530	$ 237,674	$ 55,069	$ 60,062	$ 1,426,059
Special Revenue Fund	6,811,611	14,594	95,703	27,873	463,157	7,412,938
Enterprise Fund		66,320	13,111	644,304		723,735
'Expendable Trust Fund	33,150					33,150
Nonexpendable Trust Fund	8,920					8,920
Total Program Expenditures & Transfers-Out	7,441,405	566,444	346,488	727,246	523,219	9,604,802
Less: Nonbudgeted Expenditures & Transfers-Out	61,834	2,250	2,041	(5,954)	15,968	76,139
Prior Year Expenditures & Transfers-Out Adjustments	1,025	1,003	1,006	3,503	(103)	6,434
Actual Budgeted Expenditures & Transfers-Out	7,378,546	563,191	343,441	729,697	507,354	9,522,229
Budget Authority	8,746,320	570,705	353,327	746,727	632,847	11,049,926
Unspent Budget Authority	$ 1,367,774	$ 7,514	$ 9,886	$ 17,030	$ 125,493	$ 1,527,697
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	$ 56	$ 8	$ 3			$ 67
Special Revenue Fund	1,367,717	5,921	5,968		$ 125,493	1,505,099
Enterprise Fund		1,585	3,916	$ 17,030		22,531
Unspent Budget Authority	$ 1,367,773	$ 7,514	$ 9,887	$ 17,030	$ 125,493	$ 1,527,697

[1] See note 4 on page A-13.

This schedule is prepared from the Statewide Budgeting and Accounting System
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1998

1. Summary of Significant Accounting Policies

Basis of Accounting

The society uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the society records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the society incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the society to record the cost of employees' annual leave and sick leave when used or paid.

The society uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the society records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include entire budgeted service contracts even though the society receives the services in a subsequent fiscal year, goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end, and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System (SBAS) without adjustment.

Accounts are organized in funds according to state law. The society uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Society Special Revenue Funds include federal assistance programs, historic sites and signs programs, and donations.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the agency finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The society Enterprise Fund includes the publication program which includes merchandise and magazine sales, Historical Society Press operations, and library and museum photocopy revenue.

Fiduciary Funds

Trust Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The society records private donations established as trusts which permit spending of the principal in the Expendable Trust Fund. The society records private donations which permit spending only earnings from investments in the Nonexpendable Trust Fund.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Each agency records cash or other assets from the statewide fund when it pays General Fund obligations. The society's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 1997 and June 30, 1998.

3. Cash Transfers In

The society spends its General Fund appropriation throughout the year. At year end the Department of Administration makes a cash transfer to the society's general fund to cover these expenditures. These cash transfers were $1,459,839 and $1,478,552 in fiscal years 1996-97 and 1997-98, respectively. The society also received a Cash Transfer In of $3,912,500 in the Special Revenue Fund from the Cultural and Aesthetic Trust in fiscal year 1996-97 for the purchase of Virginia City and Nevada City.

4. Virginia and Nevada Cities Purchase

In May of 1997, the society purchased Virginia City and Nevada City. The total purchase price was $6,493,237 and was financed through the issuance of general obligation bonds and a transfer from the Cultural and Aesthetic Trust. The transfer from the trust was received in fiscal year 1996-97 and amounted to $3,912,500. The transfer appears on the fiscal year 1996-97 Schedule of Changes in Fund Balance as a Cash Transfer In. The proceeds of the bonds were received in fiscal year 1997-98 in the amount of $3,912,500. The bond proceed revenue appears on the fiscal year 1997-98 Schedule of Total Revenues and Transfers-In as "Other Financing Sources" in the Special Revenue Fund and on the Schedule of Changes in Fund Balances as "Budgeted Revenues and Transfers-In." The purchase occurred in fiscal year 1996-97 and appears as Capital Outlay and Equipment and Intangible Assets expenditures in the Administration Program on the fiscal year 1996-97 Schedule of Total Expenditures and Transfers-Out.

5. Revenue Estimate

The $3,912,500 transfer from the Cultural and Aesthetic Trust for the purchase of Virginia City and Nevada City was estimated as an "Other Financing Source." The society did not record the funds as revenue, but as a cash transfer to more accurately reflect the transaction. The cash transfer shows up on the fiscal year 1996-97 Schedule of Changes in Fund Balance as a "Cash Transfer-In" in the Special Revenue Fund. It is not included as revenue on the Schedule of Total Revenues and Transfers-In. As a result, on the fiscal year 1996-97 Schedule of Total Revenues and Transfers-In, in the Special Revenue Fund, the "Other Financing Sources" revenue class is under the estimate by $3,914,932.

Notes to the Financial Schedules

6. **Restatement of Investments**

As a result of implementation of the Governmental Accounting Standards Board (GASB) Statement No. 31 - Accounting and Financial Reporting for Certain Investment and External Investment Pools, effective July 1, 1997, the investments held by the society for their trust funds had to be restated to fair value as of June 30,1997. This resulted in direct entries to fund balances on the fiscal year 1997-98 Schedule of Changes in Fund Balance in the Expendable and Nonexpendable Trust Funds of $159,821 and $544,782, respectfully.

7. **Program Additions**

In fiscal year 1997-1998, there were two program additions to the Schedule of Total Expenditures and Transfers-Out. A Heritage Commission Program was added to account for the activity associated with the purchase, restoration, and maintenance of Virginia City and Nevada City. The other addition is the Lewis and Clark Commission Program which was added to coordinate and promote observance of Montana's bicentennial commemoration of the Lewis and Clark Expedition.

8. **Negative Expenditures**

The purchase of Virginia City and Nevada City occurred in fiscal year 1996-97. At this time there was not a separate program set up to account for the activity. The purchase was recorded in the Administration Program on the fiscal year 1996-97 Schedule of Total Expenditures and Transfers-Out. In fiscal year 1997-98, after a separate program was set up specifically for the Virginia City and Nevada City activity, society personnel moved the activity from the Administration Program to the Heritage Commission Program. The negative expenditures recorded in the Administration Program for Equipment and Capital Outlay of $3,492,165 and $3,000,572, respectively, on the fiscal year 1997-98 Schedule of Total Expenditures and Transfers-Out, reflects the movement of prior year expenditures. Likewise, these Equipment and Capital Outlay expenditures show up in the Heritage Commission Program. The transaction was recorded on SBAS in fiscal year 1997-98, but does not reflect current year expenditures. They are the movement of prior year expenditures.

9. Related Party Transactions

The Montana Historical Society Foundation (foundation), exists to promote, assist, and benefit the operations of the Montana Historical Society and the library, museums, art galleries, and other facilities operated and maintained by the society. The foundation may also advise and assist the trustees of the society regarding fund-raising activities.

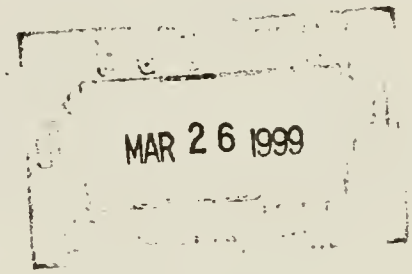
Members of the Board of Directors of the foundation are to include the current president of the Board of Trustees (board) of the Montana Historical Society or a designated representative from the board. The Board of Directors may authorize an agent from the society to enter into contracts on behalf of the foundation and the director of the Montana Historical Society may be one of the two signatures required on certain checks, orders for payment, or other notices of indebtedness of the foundation.

During the audit period, the society entered into two contracts with the foundation for the lease of two buildings in Virginia City. Under the agreements, the foundation leased these two buildings in order to operate the liquor licenses transferred to it by the society after purchase of the historical properties. The foundation agreed to pay the Montana Heritage and Preservation Commission of the society fifty percent of the net revenues from operating the licenses as payment for the lease, use, and operation of the premises.

Agency Response

MONTANA HISTORICAL SOCIETY
225 No. Roberts ✦ PO Box 201201 ✦ Helena, MT 59620-1201 ✦ (406) 444-2694 ✦ FAX (406) 444-2696 ✦ WWW.HIST.MT.GOV

March 23, 1999



Scott A. Seacat
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

The following is a response to the recommendations in the Financial Compliance Audit for the two years ending Fiscal Year 1998.

Recommendation #1

We recommend the Society requests that the Department of Revenue transfer $45,000 to the historic preservation and development account for reimbursement of the Fort Peck grant paid by the Society.

The Society concurs with this recommendation and has requested the transfer of $45,000 from the Department of Revenue.

Recommendation #2

We recommend the Society establish procedures to ensure state property is not transferred to another entity without proper compensation to the state.

The Society concurs with this recommendation. When the state purchased Virginia City and Nevada City, the state was unable to own the three liquor licenses according to state law. At this time, the Society had no alternative but to transfer the licenses from Bovey Enterprises to the Montana Historical Society Foundation and the Daly Mansion Preservation Trust. The Society was performing their fiduciary responsibility to protect these state assets until a time when the state could own them. If this was not done, the licenses would have been lost to the state.

Currently Senate Bill 386 has passed both houses of the legislature. This bill will transfer the ownership of the three licenses to the Montana heritage preservation and development commission. The Society has done all within its power to safeguard these assets.

The Society follows established procedures to insure state property is not transferred to another entity without proper compensation to the state. These licenses could never be owned by the state to make a transfer.

Recommendation #3

We recommend the Society establish rules governing acquisitions of historic sites in accordance with state law.

The Society concurs with this recommendation and will begin the process of establishing rules.

Sincerely,

Sharon C. McCabe

Sharon C. McCabe
Interim Director

SM/rc